

13. Beyond All Or Nothing: Reforming Social Security Disability Insurance To Encourage Work And Wealth

Jason J. Fichtner and Jason S. Seligman¹

INTRODUCTION

Reform of the Social Security Disability Insurance (SSDI) program should be fiscally responsible and socially humane. This chapter proposes a reform that creates a temporary disability award and allows for partial disability awards, to better reflect the reality that disability is not an all-or-nothing condition that precludes work.² In our view, administration of a temporary disability award program that allows partial benefits requires mandatory continuing case reviews. Additionally, we explore what role private employers might play in the insurance of disability (directly and through better integration of Americans with Disabilities Act accommodations).³ Further, we describe a tiered approach to implementing a disability insurance system that allows for temporary and partial disability awards, including pilot project designs allowing for empirical evaluation ahead of any proposed national changes.

The SSDI program requires reform and improvement in order to ensure it continues to provide a vital safety net for disabled Americans. Due to the impending depletion of the SSDI trust fund in 2016, we believe there is a unique opportunity to redesign the program to better meet the needs of twenty-first century workers and families. The retirement program, Old-Age and Survivors Insurance (OASI), has its own trust fund, which is projected to become insolvent in 2034. On a combined basis, the two trust funds have a projected insolvency date of 2033. Should disability insurance be considered for reform first, anticipating the magnitude and type of potential spillover effect and any subsequent program reforms to Social Security's retirement program will be important.

According to the Social Security Trustees, "Social Security's Disability Insurance (DI) program satisfies neither the Trustees' long-range test of close actuarial balance nor their short-range test of financial adequacy and faces the most immediate financing shortfall of any of the separate trust funds."⁴ The OASI and DI trust funds are legally separate because they are designed to serve different

¹ The views in this piece are the authors' and do not necessarily represent the views of the Mercatus Center, the United States Department of Treasury, or the U.S. Government.

² Even without any changes to eligibility standards, a temporary program that also allows partial disability awards could increase the number of people in the program if those making the determination become more lenient, in turn increasing both the size and cost of the DI program. That recognized, we intend to design a program that mitigates or minimizes any increased enrollment driven by way of a moral hazard problem. To this point, we also offer changes to the financing and delivery of the Continuing Disability Review (CDR) process.

³ For a general example of how employers might play a role, see Autor & Duggan, 2010. <http://www.brookings.edu/research/papers/2010/12/disability-insurance-autor>

⁴ <http://ssa.gov/oact/TRSUM/tr14summary.pdf>

purposes and different populations.⁵ While historically the financial assets of one trust fund have sometimes supported the other, sharing resources between trust funds is not part of current law.⁶

Merging the two trust funds would have drawbacks. The programs were designed for separate insurance purposes: one insures in case of disability, whereas the other insures against old age and for a surviving spouse. If the two trust funds were combined, future financial or operational problems related to the individual programs might be masked, receive less timely attention, and cause greater fiscal strain before remedial action(s) are taken.

Beyond linking the funds, any stopgap solution for the pending 2016 DI shortfall does nothing to solve the underlying disincentives inherent in the disability program that discourage work, saving, and investment. For those reasons, we maintain that meaningful reforms to the Social Security system are necessary now and should not be delayed.

Our main goals for the program design we offer are: to support improved opportunities for work and saving while lowering public costs and improving the finances of the SSDI program. Under our system of reforms, the SSDI system would encourage and support remaining in the labor force, for those who can. Our design incentivizes the engagement of employers to assist with, and benefit from, these holistic efforts. Working from both the labor supply and demand sides, our reform seeks to increase labor force participation, U.S. productivity, and household income and wealth. Concepts in this chapter do not exclude other reform opportunities and in many cases complement other reform ideas, which will be addressed where appropriate in the chapter.⁷ Additionally, by moving to a temporary disability insurance program that allows partial benefit awards, our hope is to also change a growing public and media perception that the SSDI program has moved away from being an insurance program and become a welfare program for the unemployed; one that creates a permanent welfare dependency.⁸

Temporary and Partial Disability Benefits for Workers and the Program

Under the current SSDI program, you are either disabled, or you are not. Neither a person suffering from debilitating pain who is able to work earning above \$1,090 a month, nor one who cannot work even part time but who is expected to recover in less than one year is considered “disabled;” and neither person is currently eligible for benefits.⁹ This binary all-or-nothing approach to disability does

⁵ See <http://www.ssa.gov/OACT/ProgData/fundFAQ.html#a0=0> and <http://ssa.gov/oact/TRSUM/index.html>

⁶ Geoffrey Kollmann, “Social Security: Summary of Major Changes in the Cash Benefits Program,” CRS Legislative Histories 2 (Washington, DC: U.S. Social Security Administration, 2000), <http://www.ssa.gov/history/reports/crsleghist2.html>.

⁷ One complimentary reform that could also assist in determining the amount of any partial award would be removing or improving vocational grids: <http://www.ssab.gov/documents/SocialSecurityDefinitionOfDisability.pdf>. Any particular redesign of a grid will become stale over time, so we would emphasize redesigns that dynamically reassess disability employment over industries and occupations.

⁸ For an example of a popular media story reflecting this type of narrative, see: “Unfit for Work: The Startling Rise of Disability in America,” Chana Joffe-Walt. National Public Radio. 2013. Available online: <http://apps.npr.org/unfit-for-work/>

⁹ “To be eligible for disability benefits, a person must be unable to engage in substantial gainful activity (SGA). A person who is earning more than a certain monthly amount (net of impairment-related work expenses) is ordinarily considered to be engaging in SGA. The amount of monthly earnings considered as SGA depends on the nature of a person's disability. The Social Security Act specifies a higher SGA amount for statutorily blind individuals; federal regulations specify a lower SGA amount for non-blind individuals. Both SGA amounts generally change with changes in the national average wage index. The monthly SGA amount for statutorily blind individuals for 2015 is \$1,820. For

not reflect the reality that many with disabilities are capable and willing to work. It also raises the stakes for the determination process, because determinations often require somewhat subjective interpretation of applicants at a single moment in time to forecast their ability to work. Further, in line with the concept of *permanent* disability, under the current DI program many who are awarded disability benefits leave the workforce entirely and never return. Although DI payments may be terminated as a result of either a return to the labor force or a reevaluation initiated by the Social Security Administration (SSA), in practice leaving the DI program due to medical improvement or returning to work are relatively rare events.¹⁰

Temporary and partial disability awards would better afford opportunities for rehabilitation, improving the subsequent quality and productivity of the workforce commensurately. Importantly, as we envision it, the program would require the beneficiary to undergo a disability review after the initial award period expired, in one to two years depending on the initial disabling condition. In sum, both to address challenges faced by the current determination system and to address the systems shortcomings in accommodating temporary and partial disability, we propose considering a design whereby all future initial awards are temporary and some are partial as well.

Though the assessment of ability to work can be difficult, a large and growing literature documents the ability of work capacity, at some level, among disabled applicants and beneficiaries. For example, a review of the literature by Na Yin (2015) “concluded that a nontrivial proportion of disability applicants and beneficiaries are able to work to some extent.” Further, Yin cites several research studies suggesting “that around 20 percent of DI awardees are partially disabled or not disabled, and have residual work capacity.”¹¹

It is important for us to state up front that the design we envision, whereby all new awards would be temporary, does not mean that awards would expire automatically or could not be continued. Our design is intended to protect beneficiaries and their right to due process by guaranteeing them a timely continuing disability review (CDR) for medical improvement and functional ability to work. A beneficiary’s benefits could not be canceled due to inability of SSA to administer timely CDRs. Proper funding of SSA’s CDR process is integral to the success of any temporary and partial disability insurance system. In essence, the temporary award system we propose would be similar to the current program if CDRs were properly funded and conducted in a timelier manner. The differences are that we propose a program that would allow for partial awards to enable those that can continue some work to remain attached to the labor force, and we propose that CDRs would occur more frequently. Partial awards could be decreased or increased at each review depending on medical improvement or decline. We point out here that changing the program to make all awards temporary changes the motivation of both the recipient and the CDR administrator. Previously, the CDR model was based loosely on an audit design. In lieu of a review, the recipient is able to keep the award, whether or not he or she remains disabled. Making CDRs mandatory for benefit continuation, the expectations are changed and a signal is sent that SSDI is an insurance program. This shift from an audit framework

non-blind individuals, the monthly substantial gainful activity (SGA) amount for 2015 is \$1,090.” See: <https://www.socialsecurity.gov/oact/cola/sga.html>

¹⁰ In December 2013, a total of 10,228,364 people received Social Security disability benefits. In 2013, fully 92,485 beneficiaries (or approximately 1 percent) had their benefits terminated for not continuing to meet the plan’s requirements, including medical improvement or earning above the substantial gainful activity amount. See Table 50: http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/sect03f.html

¹¹ Na Yin. “Partial Benefits in the Social Security Disability Insurance Program.” *The Journal of Risk and Insurance*. 82(2). 463-504, page 468.

to an assessment framework for reviews motivates the individual to seek a CDR when eligible, and to begin planning for a return to the workforce when they are not.¹² We believe this assessment framework can be coupled with assistance for those transitioning back to the workforce, or in the case of partial awards, to not leave the workforce entirely.¹³

Integrated Employer Engagement in Disability Insurance and Worker Accommodation

We also propose a separate reform to engage employers. This change could take place regardless of whether a temporary or partial disability structure was adopted. It would give employers an expanded role in the disability insurance program. Specifically, employers would pay premiums to cover the first two years of disability payments. A near-term continuation review, roughly one year from initial determination, would evaluate the worker's ability to return to work, either full- or part-time, in line with a short-term disability program. At the two-year mark, those unable to return to work would exit the private system and could transfer to the DI trust fund, depending on the outcome of an SSDI evaluation. SSDI evaluation would begin following the private CDR just mentioned, to make the hand off seamless for those eligible. Besides being independent, the SSDI employment evaluation would be broader, based on the expert advice of medical, technical and vocational experts and including opportunities beyond the previous employer and occupation.

From the perspective of an insurance product, employers would offer relatively short-term disability coverage, while the government would continue to finance long-term disability liabilities. From the perspective of labor force participation and productivity, keeping workers and employers engaged through the shorter term would better allow them to explore any mutual benefit from accommodation and health insurance-financed therapies, relative to work stoppage, potentially enhancing the efficacy of the 1990 Americans with Disabilities Act.

Autor and Duggan (2010) propose experience-rating employer contributions to the system. That rating would be based on the history of employees' disability applications. The goal of experience rating is to remove a potential moral hazard problem. Businesses whose employees exhibit higher instances of disability would not be able to shift those workers to a disability program without direct costs. If an employer is required to cover the first two years of worker disability through private market insurance, the employer may have more incentive to either keep partially disabled workers employed or improve working conditions by way of accommodations that reduce the overall incidence of marginal disability applications and awards.

As we (Fichtner and Seligman) mention in our 2015 paper, such program innovations hold promise in as much as they expand the private system and thereby reduce the burden of retirement system

¹² Models of this sort are employed in other cases in which skills and capacity are subject to change over time—for example, continuing care retirement communities. While the analogue is by no means perfect, we note that for those who are aging and need to rebalance independent living with assisted care, there is an incentive to start planning. Similarly, those regaining capacity to work would have an incentive to begin planning for a return to the workforce.

¹³ Another type of temporary and partial award system could involve time-limited benefits where the applicant is awarded benefits for a set period of time only, for example 12-24 months. After such time, a person would have to reapply for benefits if he/she wanted them continued. This would start the entire application process over again. After discussions with congressional staff, SSA employees, advocates for the disabled, and other interested parties—and given the current timeline for a determination, and to have an appeal heard before an administrative law judge—no one thought SSA has the administrative capacity to handle a true time-limited disability insurance program. Under better funding and administrative capacity, such a program could be adopted or pilot tested, but we believe that the mandatory CDR model is better for reasons stated above.

reforms to address disability. However, employers' motivation to protect experience-rating markups in the public system and avoid two-year claim payouts within their group policies might well create perverse incentives for business. Businesses may choose to avoid exposure to both public and private premium increases by avoiding hiring employees prone to disability claims—including those who might be returning to the workforce following a disability claim. Hence, at this time, we do not support experience rating for a private disability insurance component. As we will discuss later in the chapter, a pilot demonstration could provide evidence on this issue.

By way of both (1) the partial and temporary and (2) the employer engagement reform components, we offer a design that acknowledges the dignity afforded by work, alongside the dignity of exit from the workforce for those who cannot work. Our proposed reforms are intended to be prudent and judicious. In that spirit, we propose providing grant funding to run competing prototype modular demonstration projects. These would be sequenced in a logical order such that outcomes from preliminary projects inform those that follow. Outcomes would be evaluated along a rigorous program time path. We believe that such work should be ongoing with the goal of continually improving the disability insurance programs—a research and development (R&D) function to target more humane and empowering coverage at efficient costs.

The reform we are proposing is close in spirit to one implemented in the Netherlands, which changed its disability program in 2002 to require employers to cover the first two years of disability payments after the onset of a health condition.¹⁴ According to Burkhauser, et al, “These changes effectively meant that during the first two years following a health shock, workers were the responsibility of the firm and not eligible for long-term government-provided disability benefits. During these two years, employers must allow workers receiving sickness benefits to remain with the firm and can only dismiss employees who refuse to cooperate in a reasonable work-resumption plan.”¹⁵

THE PROGRAM – CURRENT DESIGN AND ASSOCIATED CHALLENGES

SSDI, as designed, provides cash benefits for those who cannot work above the SGA amount¹⁶ due to a medical condition expected to last 12 months or longer, or result in death. There are legal definitions of what constitutes “disability” and the program does not currently allow for temporary or partial-disability payments. An applicant is determined to be either fully disabled, or not disabled. Examples of people who fail to be considered “disabled” include: (1) a person suffering from back pain who is able to work only part-time; (2) a person who cannot work even part time but who is expected to recover in six to 10 months and, (3) a person temporarily disabled due to pregnancy.

By contrast, consider two other disability insurance outlets, the private market and the U.S. Department of Veterans Affairs. Private insurers generally offer both short- and long-term disability insurance; these can usually be purchased separately.¹⁷ The Department of Veterans Affairs (VA) offers *partial* disability awards to military veterans, acknowledging that some disabilities limit work

¹⁴ For more information on the recent history of the Netherlands' disability program and reforms, see: Pierre Koning and Maarten Lindeboom, “The Rise and Fall of Disability Insurance Enrollment in the Netherlands.” 2015.

¹⁵ Richard Burkhauser, et al, “Disability Benefit Growth and Disability Reform in the U.S.: Lessons from Other OECD Nations,” Federal Reserve Bank of San Francisco Working Paper. December 2013. Page 18.

¹⁶ <https://www.socialsecurity.gov/oact/cola/sga.html>

¹⁷ For just one example of a private disability insurance offered by Unum, see: <http://www.unum.com/Employees/Benefits/Disability.aspx>

entirely while others limit opportunities to a lesser degree.¹⁸ While neither the private market nor the VA covers anywhere near the same percentage of the U.S. population as Social Security, and both types of programs face their own challenges, adoption of the better design elements of each merits consideration. In fact, some of the challenges faced by each type of program result from the inconsistencies across them, which generate an ad-hoc landscape of gaps and redundancies in disability coverage. Harmonization and integration can help to both (1) better define/support markets for insurance coverage and (2) better provide assistance for those suffering as a result of disability.

Structural and Cyclical Challenges to Current Program

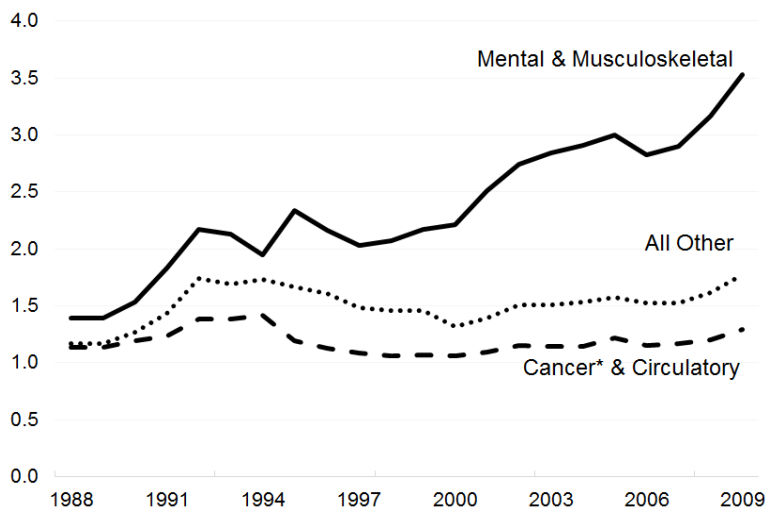
A particular challenge regarding disability relates to its relative nature. The U.S. labor market has changed since the SSDI program was introduced. Work has become less physical in nature, and traditionally defined disability has become easier to accommodate in the workplace. The reverse is true for mental disabilities. As work has become more analytic and social, mental disabilities weigh heavier on opportunities for employment. This shift has changed the applicant pool and weighs on the determination process. It has resulted in a shift toward mental and musculoskeletal-related conditions which are more challenging to diagnose. This is an issue that affects disability programs in many developed nations.¹⁹

Addressing the changing claimant profile, Germany changed their disability program in response to problems similar to those the United States faces. German disability payments are now discounted, such that younger workers find disability less appealing than older workers. Younger workers can be more receptive to retraining, and both workers and firms have longer to recoup the costs of retraining investments. Below, one can see the evolution of claims for the United States and Germany. The German program is depicted in the bottom panel. Looking at both, one can see the change in caseload dynamics that emerged in the mid-1990s as Germany began reforms.

¹⁸ The Department of Veterans Affairs offers disability compensation in 10 percent increments, based on the level of disability. For more information, see: <http://www.benefits.va.gov/COMPENSATION/types-disability.asp>

¹⁹ Richard Burkhauser, et al, "Disability Benefit Growth and Disability Reform in the U.S.: Lessons from Other OECD Nations," Federal Reserve Bank of San Francisco Working Paper. December 2013.

Figure 1. Social Security Disability Insurance Awards (per 1,000 insured by diagnosis).

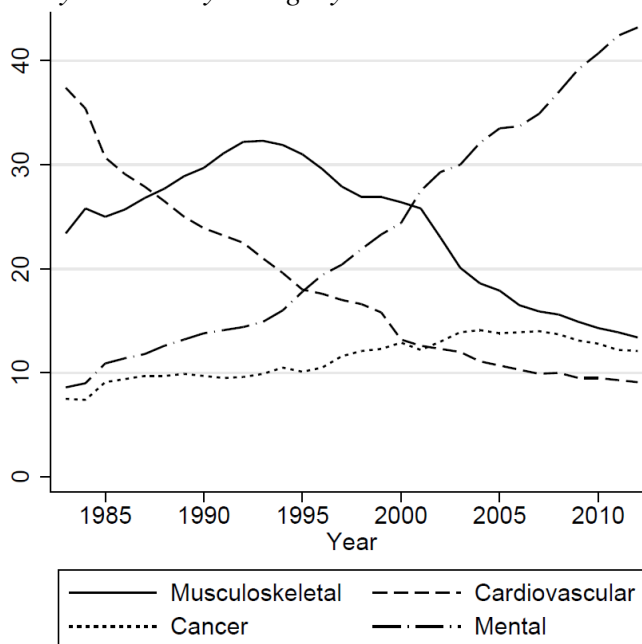


Data Source: Social Security Administration.

Note: *Cancer figures include all awards categorized under neoplastic diseases.

The figure above highlights that mental and musculoskeletal disability awards have been large drivers of growth for the U.S. DI program.

Figure 2. German Disability Awards by Category 1984 – 2012.



Source: We thank Hendrik Juerges for producing this combined-sex look at German disability awards by ailment and granting us the opportunity to share it here, in this chapter.

The figure above highlights that in Germany, too, mental health awards have driven application. Mental health awards have represented an increasing share of awards, both before and throughout the era associated with the German reform process.

Germany's 1992 reforms were evidently successful at reducing growth in musculoskeletal awards. German reforms were less successful at addressing growth in mental health based awards. As we noted at the onset of this section, some of this may have to do with the changing nature of work.

Germany's reforms are rather blunt regarding claiming and welfare dynamics of workers by age. While we think that motivating younger workers to choose rehabilitation over disability insurance payments is useful for enhancing both personal and societal welfare, the type and degree of disability are important to consider. German reforms treat all young disabled workers equally, regardless of the severity of a disability. Those suffering cancer or cardiovascular ailments at age 30 are treated similar to those for whom a weak back (spine) might otherwise be treated with physical therapy whilst they remain in the workforce.

This brings us to our second point regarding the evolution of German reforms. Broadly speaking, the German social insurance system has faced many of the same challenges as the U.S. system over roughly equivalent timeframes, with modest reforms beginning in 1984 (Boersch-Supan & Juerges 2011), only a year after the U.S. effort of 1983. By 1992, U.S. reforms were acknowledged as inadequate over the long run, prompting further actions in 1994. Those changes generally increased the maximum amount of wages that could be taxed and were especially important for Medicare. In 1992, Germany also began to consider the sustainability of its system, beginning what Boersch-Supan & Juerges (2011) describe as "a 15-year lasting process of reform." By 2007, the German system had been restored to long-term actuarial balance. But the pace of reform was not uniform in its rate of transformation and most of the fiscally meaningful reforms occurred in the period after 2000. This has prompted concern among the authors that the German polis has since entered a state of "backlash." Thus, the German achievement of fiscally sustainability may yet turn out to be temporary.

The German system is, by most accounts, still a good deal more generous than the current U.S. system. We see the parable of German system reforms for the United States as advising the sort of preannounced and slow-moving phase-ins of incremental changes along the lines of the 1983 U.S. reforms. Indeed, as Boersch-Supan & Juerges (2011) document, between 2003 and 2007 some announced changes were accelerated to meet the broad sustainability goal. While reforms still phase-in over relatively long periods, when considered from a behavioral perspective, they took some German voters who value the insurance program by surprise. Negative surprises are never welcome, especially after sacrifices have already been agreed to. The broad message we take away from these efforts is that process matters and that the very best program reforms will work to more effectively improve the welfare of those who rely on the program at some future point. Again, we believe that a long-term commitment to program innovation through a more continual R&D process is likely to be better for the program and for the nation's financing of the program over time.

The disability program is also challenged by issues related to the business cycle. The Great Recession, like other recessions since 1965, dramatically increased the number of disability applications and awards. For many people, the U.S. disability program now serves as an early retirement program, which has resulted in a commensurate increase in public financial burdens.²⁰ According to Liebman

²⁰ Whereas the average age of disabled-worker beneficiaries has increased, from 51.0 in 2002 (US Social Security Administration 2003) to 53.2 in 2012, retirement ages have increased since the turn of the century as well (US Social Security Administration 2013). Providing important information for both structural and cyclical shocks' impacts on disability finance, Benítez-Silva, Disney, and Jiménez-Martín (2010, 1) find that "for a range of countries and data sets, levels of claims for disability benefits are not simply related to changes in the incidence of health disability in the population and are strongly influenced by prevailing economic conditions."

(2015), "...there has been a change in the composition of DI recipients, with more recipients claiming benefits for hard-to-verify impairments and with the program playing an increasingly important role in providing income for low-skilled workers whose economic prospects have stagnated." Against this backdrop of increasing structural and cyclical growth, the (DI) trust fund is stressed and the Social Security trustees now estimate that it will be exhausted in 2016,²¹ roughly one year from the publication of this chapter.

Problems and Challenges with Disability Determination

The private market and the VA are two other disability insurance outlets. Private insurers generally offer both short- and long-term DI, which can usually be purchased separately or in tandem.²² The VA offers partial-disability awards to military veterans, thereby acknowledging that some disabilities completely prohibit the ability to work, whereas others limit opportunities to a lesser degree.²³ The programs take somewhat different approaches to disability determination.

Over time, the private market system has evolved and now often requires the insured to apply to the SSDI program in order to continue receiving awards. A private market determination that requires application to the public system, either following or in tandem to its own determination process, may be challenging for individuals to navigate. At the same time, it is not unreasonable to encourage those entitled to public benefits to seek them. We believe that a reform that integrates private and public insurance could do a great deal to simplify the disability insurance application process, normalize expectations and help facilitate determination for the public system. In short, an integrated private short-term, public long-term program design may both offset increasing costs for the public sector and further standardize a private market for disability insurance.

This is particularly true because the application process for SSDI can be confusing and lengthy, and essentially requires workforce exit for no fewer than five months. Thus, partial and temporary disabilities are not conducive to application for SSDI. Some disabled workers may suffer in jobs past when they should exit the labor force. Uncertainty regarding SSDI eligibility can generate such an outcome among workers with low productivity and poor job-market prospects. This is a bad for both (1) workers suffering from abnormally high pain and suffering and (2) employers suffering from abnormally low productivity. The current system does not encourage employers to assist and support a dignified transition from full-time work. Of course, once unemployed for five months, a marginally disabled worker then has a strong incentive to apply for disability rather than seek partial or temporary employment, even when they maintain some work force functioning.

Consider instead a system wherein the employer-sponsored disability insurance plan awarded a short-term award (temporary or otherwise) for an initial period of 12 months. During that period, the policy would make employee contributions to health and retirement benefits, affording the employee an opportunity to continue saving for retirement and to rehabilitate their work-functioning. At month 12, a mandatory review would occur. Should functioning continue to be impaired in the second year, facilitation and support from the private system's determination would be organized to send to SSDI

²¹ See Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, DC: U.S. Government Printing Office, 2014), <http://www.ssa.gov/OACT/TR/2014/index.html>.

²² *Ibid.*, <http://www.unum.com/Employees/Benefits/Disability.aspx>

²³ *Ibid.*, <http://www.benefits.va.gov/COMPENSATION/types-disability.asp>

for review at month 18. At month 24, SSDI would determine eligibility for a partial or full award, and the worker would transition from the labor force as appropriate.

Currently, applicants for SSDI can apply either at a Social Security field office (in person or over the phone) or online.²⁴ Social Security disability claims are initially processed through SSA field offices and then passed on to Disability Determination Services (DDS), which are run by the states but funded by the federal government. Subsequent appeals of unfavorable determinations may be decided by DDS or by an SSA administrative law judge (ALJ), appeals council or, federal court.²⁵

Applicants rejected at the DDS level may ask the SSA to reconsider the decision in most states.²⁶ Almost 90 percent of rejected applicants appealed at the reconsideration stage in 2005, but only 13 percent had the decision overturned and were awarded benefits at that stage of the application process (Autor and Duggan 2010, as reported in Lindner and Burdick 2013). Those applicants who are still rejected have the option of appealing further to an ALJ, appeals council, and federal court. The waiting time to have a case heard by an ALJ varies by office but can be well over a year.²⁷ Most denials that reach the ALJ level are reversed; applicants are then awarded benefits.²⁸ Given the high variation of ALJ decisions and the need for a transparent and equitable decision process, data on judgments are of value. In fact, the SSA makes public data on each judge's overall decision for awards and denials available for those interested in performing this sort of analysis.²⁹

A striking discontinuity exists between (a) staying in the workforce and seeking a work accommodation under the 1990 Americans with Disabilities Act (ADA) and (b) exiting the workforce to apply to the SSA disability program. Having presented some basics regarding the program and its growth over time, we now consider DI in the context of the funding of the Social Security system.

Current Program Dynamics - Cyclical and Structural Factors and Impacts of the Great Recession

The financial crisis that began in 2007 resulted in a large unanticipated loss of wealth for millions of people. The U.S. stock market, as measured by the broad Standard & Poor's (S&P) 500 index, lost more than half its value (falling 56.7 percent) from a peak on October 10, 2007, to a trough on March 9, 2009.³⁰ Housing prices plummeted, and unemployment rose quickly to double-digit rates. Unemployment persisted at elevated rates well into the recovery: unemployment rates for workers ages 55 to 64 averaged 7 percent for the years 2009–2010, compared to 3 percent for the period 2005–

²⁴ For more information on the determination process, see: <http://www.ssa.gov/disability/determination.htm>

²⁵ For more information on the appeal process, see: <http://www.socialsecurity.gov/pubs/EN-05-10041.pdf>

²⁶ See <http://www.disabilitysecrets.com/topics/reconsideration-review>

²⁷ See http://www.ssa.gov/appeals/DataSets/01_NetStat_Report.html.

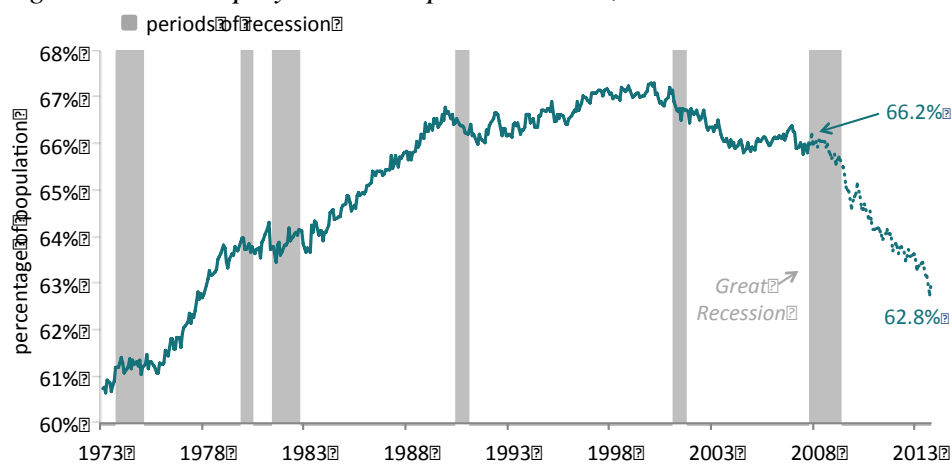
²⁸ The award rate at the ALJ level was 67 percent in FY2010 and 62 percent in FY2011. See: <http://oig.ssa.gov/sites/default/files/audit/full/pdf/A-07-12-21234.pdf>. For FY2013, the OIG reports the award rate at 56 percent, see: <http://oig.ssa.gov/sites/default/files/audit/full/pdf/A-12-13-13084.pdf>. For FY2014, SSA reports in an agency budget document the allowance rate was 45 percent. <http://www.ssa.gov/budget/FY16Files/2016LAE.pdf> (Table 3.27).

²⁹ See http://www.ssa.gov/appeals/DataSets/03_ALJ_Disposition_Data.html.

³⁰ Data are available from Yahoo! Finance. The S&P 500 index value at market close on October 10, 2007, was 1562.47. The index value at market close on March 9, 2009, was 676.53. The National Bureau of Economic Research, the arbiter of the start and end dates of a recession, determined that the recession that began in December 2007 ended in June 2009, roughly coinciding with the peak and trough dates of the S&P 500 index.

2008.³¹ Although unemployment has improved, U.S. labor force participation (LFP) has dropped by more than three percentage points, from 66.2 percent to 62.8 percent, as shown in figure 3.

Figure 3. U.S. Employment to Population Ratio, 1973–2013



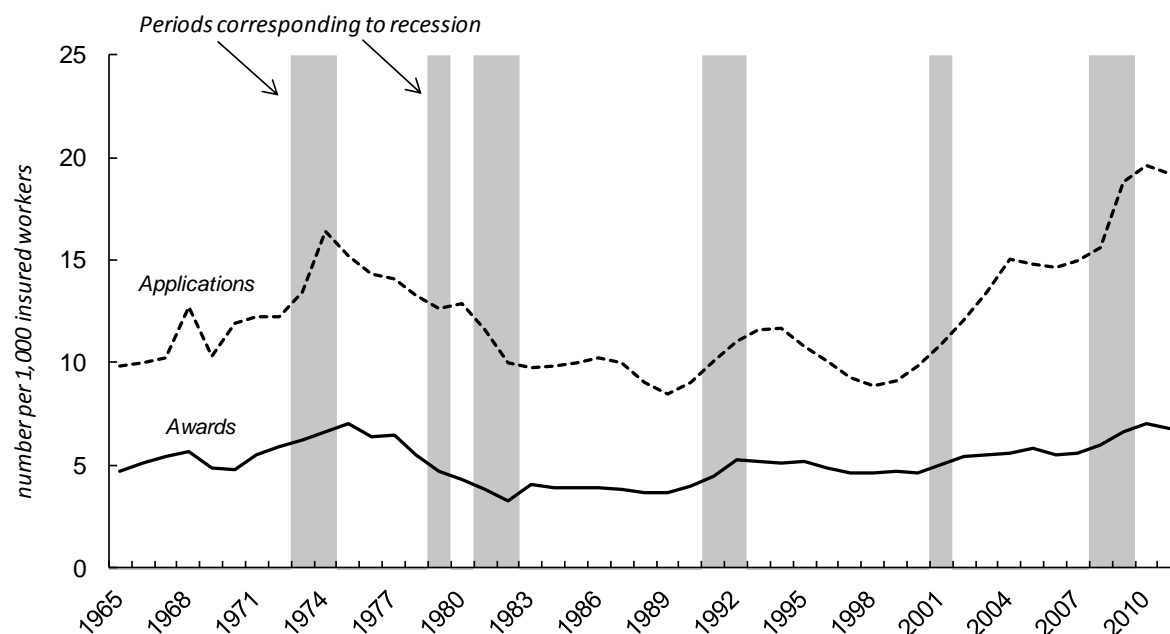
Source: U.S. Bureau of Labor Statistics, <http://www.bls.gov/cps/cpsaat1.pdf>; National Bureau of Economic Research Business Cycle Dating Committee, <http://www.nber.org/cycles/recessions.html>.

Note: Data adjusted monthly and seasonally.

Those economic conditions have vastly changed the employment and financial landscape for millions of Americans and appear to have had an impact on the number of people seeking DI payments (Lindner and Burdick 2013). The changes in the stock market, housing market, or labor market clearly do not cause physical disability, but such changes lead to an economic decline and increased unemployment (especially for individuals who might be considered marginally disabled). Such circumstances cause people who find themselves unemployed to have a greater proclivity to characterize themselves as disabled and apply for DI benefits. This process is not unique to the United States; the cyclical nature of disability awards is consistent with findings for several countries (Benítez-Silva, Disney, and Jiménez-Martín 2010).

³¹ Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, July 2011, <http://www.bls.gov/cps/cpsaat1.pdf>.

Figure 4. Disability Insurance Applications and Awards per 1,000 Insured Workers, 1965–2011



Sources: Social Security Administration, National Bureau of Economic Research Business Cycle Dating Committee, <http://www.nber.org/cycles/recessions.html>.

Figure 4 details that disability applications and awards are also linked with recessions. The Great Recession is again linked with uniquely high application rates, along with increases in awards. Overall, applications per thousand insured workers are 5.1 percentage points higher during recessions and awards average 2.1 percentage points higher over the 1965–2011 period. Those increases are, respectively, 7.8 and 4.2 times the rates of application and award in non-recessionary times. Lindner and Burdick (2013) suggest that people with moderate disabilities who can work but might find difficulty gaining employment turn to the DI program during economic downturns, possibly as a means of obtaining unemployment insurance—which is not what the SSDI program is designed to cover. To the extent the current design of SSDI is contributing at any rate to the decline in labor force participation, transitioning to a temporary and partial disability insurance system, with an expanded role for private sector disability insurance, could mitigate or reverse this trend.

Social Security, Hardships, and Associated Prospects for Reform

Recessions are depicted as discrete events, but unemployment evolves more continuously. That is also true for the growth of savings in retirement accounts. The value of those assets, in turn, constitutes the basis for most retirement wealth.³² Thus, considering the influence of unemployment and financial shocks on the Social Security Disability Insurance system in a less discrete fashion makes sense before

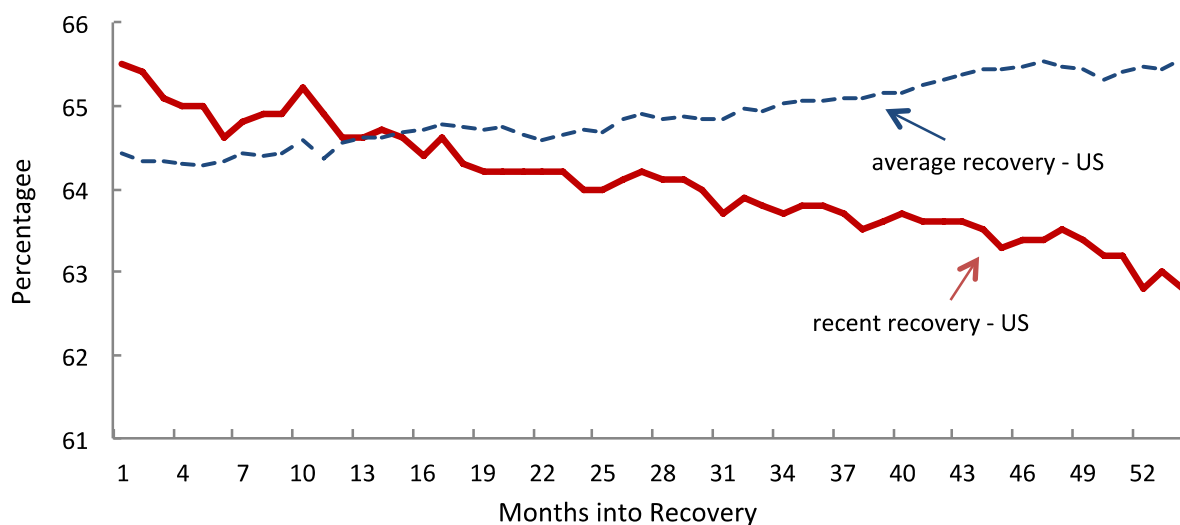
³² Seligman and Wenger (2006) estimate the impact of unemployment on defined contribution retirement savings and find that unemployment is coincident with negative shocks to equities prices, which implies that workers may systematically miss investment opportunities. That might seem to be less the case for disability; an upshot of the situation would be that equity investments might do a better job protecting against disability simply because disability risks and financial risks are not naturally coincident. However, in light of figure 5 and recent DI application and award increases—as well as the findings of Benítez-Silva, Disney, and Jiménez-Martín (2010) noted earlier—we take seriously the idea of a persistent, countercyclical, boom-bust cycle in disability awards.

turning to evaluating how specific plan reforms might impact human and fiscal outcomes—including the social goal of helping able-bodied individuals return to meaningful work.

Although the proportion of the population receiving Social Security retirement benefits has been steadily increasing over time, the disability program has been growing faster. The annual rate of increase in the number of beneficiaries in the retirement program from 1971 to 2011 was 1.6 percent. However, for disabled workers, the rate of growth was 2.2 percent (SSA2012). Disabled beneficiaries include both adults and children. Between 1980 and 2013, spending on SSI and DI benefits grew from 0.7 percent of gross domestic product (GDP) to 1.2 percent of GDP (Liebman and Smalligan 2013). Further, the percentage of working-age Americans receiving SSDI benefits has “increased significantly in recent decades, from 2.2 percent in the late 1970s to 3.6 percent in the years immediately preceding the 2007-2009 recession and 4.6 percent in 2013” (Liebman 2015).

For some time now, research has suggested that the number of applications to the DI program is highly correlated with the unemployment rate (for example, see Rupp and Stapleton 1995). So far, we have discussed cyclical disability application; however, structural changes to the U.S. economy must be considered as well. In particular, the United States has experienced diminished LFP rates, as shown in figure 5.

Figure 5. U.S. Labor Force Participation over Economic Recoveries Following Recessions, 1973–2013



Source: Labor force participation statistics from the Bureau of Labor Statistics (1973–2014); recovery statistics from the National Bureau of Economic Research Business Cycle Dating Committee, <http://www.nber.org/cycles/recessions.html>.

The DI program is intended to provide income support to individuals with permanent disabilities who cannot work above SGA. However, as discussed previously, some people with marginal disabilities who can work might seek DI benefits during tough economic times when jobs are harder to find, suggesting that some people on DI might be able to work if jobs were available. In fact, the SSA has current programs in place to help return such people to the workforce. Yet, as Autor and Duggan (2010) explain, efforts to return marginally disabled people to the workforce have yielded consistently weak results and have broadly been deemed a failure.

That failure could be partially the result of moral hazard problems inherent in the program. The program may be failing to insure against only permanent disabilities, or the program may inhibit LFP among clients with marginal disabilities—that is to say, those who could benefit from work.

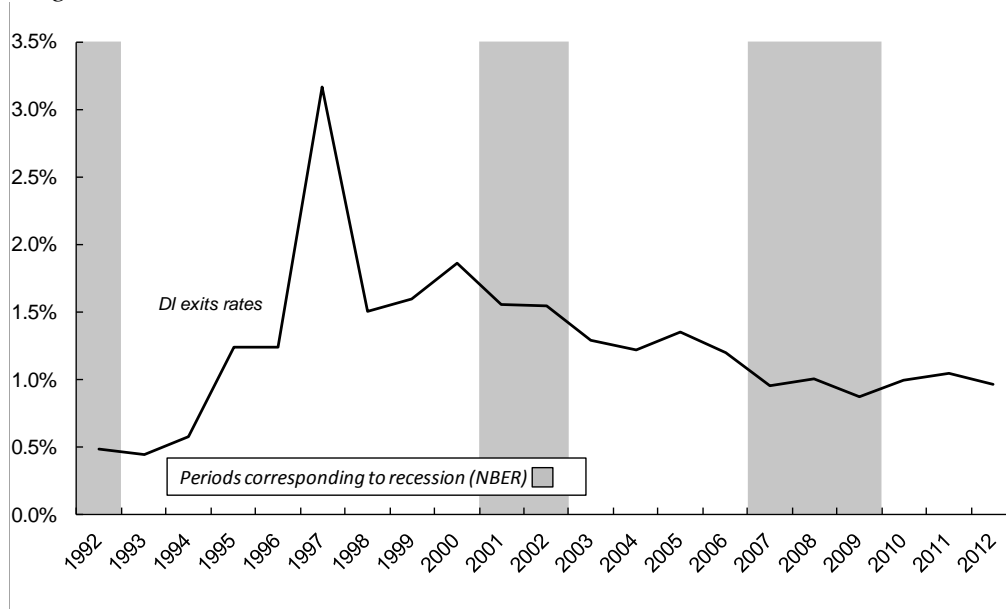
One reason people on DI might hesitate to look for work is that successful transition to the workforce eventually detaches them from the health insurance they likely received through Medicare and Medicaid, especially because few low-wage jobs currently offer such benefits. The health care exchanges established under the Affordable Care Act (ACA) may help to ease those concerns; however, coverage under the ACA typically requires contributions and a failure to purchase the insurance carries a penalty. As described in Hackmann, Kolstad and Kowalski (2015), penalties can be significant—on the order of \$1,280 for an individual annually.

Recent work by Blahous (2014) points out that although the ACA creates new fiscal burdens for the federal government, impacts are dependent on states' decisions about whether to expand Medicaid eligibility as allowed under the ACA. Notably, because other social welfare programs vary from one state to another, interactions impacting DI uptake incentives are likely to vary as well. Although health insurance purchased through the exchanges will generally have real costs for the majority of participants, Medicaid requires no premiums or out-of-pocket expenses, which could create an additional incentive to apply when DI benefits are between 100 percent and 138 percent of the federal poverty level. Whether that incentive is enough to motivate additional DI applications in states engaging in the full expansion of Medicaid under the ACA will have to be researched over the next few years.

As stated previously, the proper role for DI is to be an insurance program targeting individuals with physical and mental disabilities that preclude work. Figure 6 documents exits from DI over the period 1992–2012.

The spike in Figure 6 occurs during the Clinton administration and is a result of increased emphasis on case review. The ADA improved accommodation requirements and disabled workers' rights, but it is not associated with any meaningful spike or change in long-term exit trends. A similar spike occurred during the Reagan administration.

Figure 6. Percentage of Social Security Disability Insurance Recipients Leaving the Program for Not Meeting Medical Criteria, 1992–2012



Source: Social Security Administration, National Bureau of Economic Research Business Cycle Dating Committee, <http://www.nber.org/cycles/recessions.html>.

Note: This figure describes exits related to health over time. Notably, the Americans with Disabilities Act (1990), which worked to improve accommodation for disabled workers, does not seem to be associated with any long-term trend of increased exits.

We note that a well-functioning program would display relatively smooth exits over time. Spikes, if they occurred, would be the result of sudden improvements in therapy or accommodations that improve job prospects. We offer that the increase in exits during either the Clinton or Reagan years was only temporary, and that a longer-term investment in case review would have the opportunity to improve efficacy—including the efficacy of efforts to provide fairness in standards of determination, and of the expectations of participants and those budgeting for the program. Most importantly, an investment in more continuous and thoughtful review would benefit the broad pool of insured individuals who fund and rely on the program’s contingent support across their working years.

REFORMING THE SOCIAL SECURITY DISABILITY INSURANCE PROGRAM

Temporary and Partial Disability Awards

In order to reform and improve the SSDI program, temporary disability awards should be the default and partial disability awards allowed to better reflect the reality that disability is not an all-or-nothing condition that precludes work. As previously stated, administration of a temporary disability award program that allows partial benefits requires mandatory continuing case reviews. Additionally, private employers might play an increased role in the insurance of disability (whether directly and/or through better integration of ADA accommodations). Pilot projects to test these proposals are best done at the state level and should be designed to afford for rigorous empirical evaluation.

Well-designed temporary and partial disability awards promise to better afford opportunities for rehabilitation, improving the subsequent quality and productivity of the workforce commensurately. Importantly, the program as we envision it would require the beneficiary to undergo a disability review after the initial time period expired, between a one and two-year period and based on the type of disabling condition. In sum, both to address challenges faced by the current determination system and to address the system's shortcomings in accommodating temporary and partial disability, we propose considering a design whereby all future initial awards are temporary and some are partial.

A natural question arises, *how much should a partial award be?* We suggest that determining the proper amount of any partial award can be done through the pilot program process. While many pilot designs should be considered, we suggest including a baseline pilot program where the partial award is set at 50 percent of the fully eligible award. Under the baseline pilot, someone who doesn't currently qualify for the DI program still would not qualify. Someone who currently qualifies for DI would have the option to participate in a partial award program with broader labor force participation opportunities. The results of the pilot would inform which types of people (based on demographics, education, and medical condition) are most likely to succeed in remaining attached to the labor force. The results, if encouraging, would then be used to design a national program where certain medical conditions might automatically place people into the partial disability award program. Although an overly broad example, medical conditions that meet the current listing for SSA's Compassionate Allowances³³ would receive full benefits, while those awarded benefits for mental and muscular skeletal conditions would be placed into the partial award program. Other pilot program proposals that varied in their partial and temporary design could be compared to this one in terms of residual labor force participation/exit at 6, 12, 18 and 24-month markers.

One alternative might start from the Veterans Affairs standard of consideration, which compensates partial disability in increments of 10 percent.³⁴ The current SSDI program already computes a residual functional capacity (RFC) to help determine eligibility.³⁵ RFC could also be used to calculate a range of partial benefit awards. Either way, the results of the initial pilot program as described above would inform policymakers whether a more varied partial disability award program is possible, and how to design and implement such a program.

As previously stated and stated again here so that there is no confusion, the proposal that all new rewards be temporary does not mean that all awards would expire automatically, or could not be continued without another application. To the contrary, our design is intended to protect beneficiaries and their right to due process by guaranteeing them a timely continuing disability review for medical improvement and functional ability to work. Benefits could not be canceled due to inability of SSA to administer timely CDRs. Proper funding of SSA's CDR process is integral to the success of any temporary and partial disability insurance system.³⁶ (Proper funding should also protect program participants from unexpected and time-inconsistent surges in case reviews like the one documented in Figure 6.) In essence, the temporary award system we propose would be similar to the current program that exists today if CDRs were properly funded and conducted timely and accurately. The differences are that we now propose a program that allows for partial awards to enable those that can continue some work to remain attached to the labor force, and we propose that CDRs occur on a

³³ See: <http://www.ssa.gov/compassionateallowances/> and <http://ssa.gov/compassionateallowances/conditions.htm>

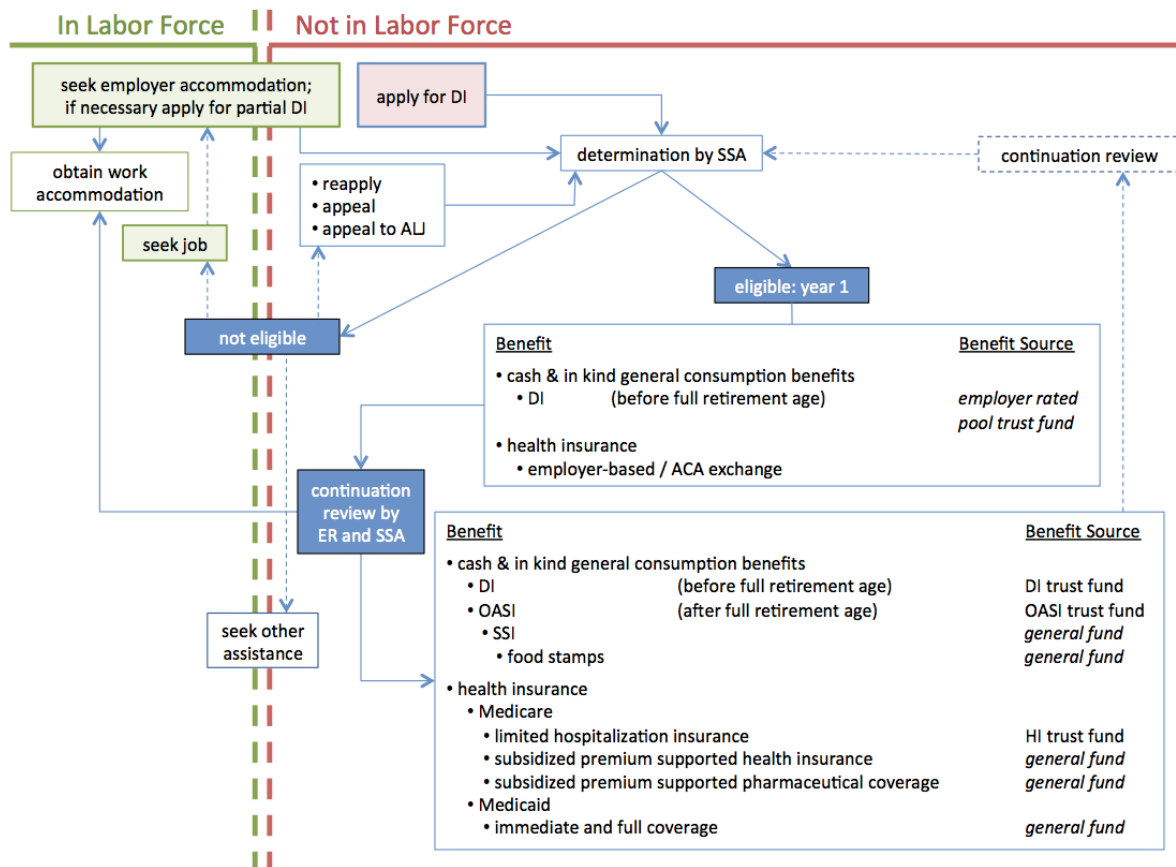
³⁴ Ibid., <http://www.benefits.va.gov/COMPENSATION/types-disability.asp>

³⁵ See: http://www.ssa.gov/OP_Home/cfr20/416/416-0945.htm

³⁶ Since timely and frequent CDRs are an integral part of our proposal, some guarantee of funding for CDRs will be necessary. Such guarantee could include mandatory funding for CDRs or adjustments to discretionary budget caps.

more frequent schedule. Partial awards could be raised or lowered at each review period depending on medical improvement. And, changing to a program where all awards are temporary, even if in name only, would change expectations and send a signal that SSDI is an insurance program to help those workers who are not able to stay attached to the workforce, without forcing them to leave it entirely.

Figure 7. Reformed Program Design with Mandatory Continuation Review after 12-24 Months
Social Security Disability Insurance: reformed system design



Note: ACA = Affordable Care Act (2009); ALJ = administrative law judge; DI = Disability Insurance; ER = employer (or previous employer); HI = Medicare Part A Hospital Insurance; OASI = Old-Age and Survivors Insurance; SSI = Supplemental Security Insurance.

Another big difference between the proposed system and the current one is the proposed system’s integration of the eligibility determination with employers’ responsibilities under the ADA to encourage labor force attachment and rehabilitation. Also, the initial DI award would always be temporary, with a mandatory continuation review between 12-24 months. In the proposed system in which the employer would have responsibility for providing private disability insurance coverage, responsibility for continuing disability review would be shared between the employer (or previous employer), denoted “ER”—who would have to provide private DI—and the SSA.³⁷

³⁷ Under this basic scheme, individuals with verified medical conditions, for which the impairment is permanent or likely to result in death within 12 months, would receive permanent disability benefits and not be subject to a mandatory one-year review.

ANALYSIS OF FULL PROPOSAL

Under a reformed system where all new awards are temporary, there's an allowance for partial awards, and employers pay premiums in a private market system to cover the first two years of disability payments, the perverse incentive of the current program to discourage work and labor force attachment would be removed. Employers would have an incentive to assist in evaluating a worker's ability to return to his or her previous position, either full- or part-time. Following a demonstration project, if experience rating can be included in the premium design without adversely impacting near-, partial- and, returning-disabled labor force participation, then experience rated premiums should be included. A potential avenue for such a program would be to scale and tune a credit program that acknowledges the hiring of at-risk and recovering persons. One metric might be developed around firms' investments in accommodation and rehabilitation services. In such a case, the positive experience-rating incentive should be large enough to motivate employers to rehabilitate employees whenever such rehabilitation is useful and humane. At the second-year mark, the time of potential transfer to the DI trust fund, reevaluation should be broader in terms of opportunities for employment outside the employer and occupation previously held.

Allowing for partial awards, whether at the 50 percent level or with a more complex yet flexible partial benefit schedule would provide the proper incentive to workers to remain employed and attached to the labor force in whatever capacity they are functionally able.

Again, conditional on useful and humane employment, the design affords an opportunity to acknowledge the dignity afforded by the ability to work, as well as the dignity of full or partial exit from the workforce in the face of significant suffering resulting from disability. Of course, further research into the costs and benefits of such a system—and the effects that such a system would have on labor force participation—should be conducted using pilot programs.

Research by Yin (2015) utilizes a life-cycle model to simulate the costs of a partial disability insurance program and estimates that “the (financial) cost of the DI program, calculated as the present value of benefits paid out less the present value of tax paid in, will be lower.” However, Yin's research is a simulation model with different levels of partial benefits, not an actual real-world empirical study, further supporting our belief in the need for pilot programs to test the policy reforms proposed in this chapter.

Additionally, research by Burkhauser, et al on disability program reforms internationally show that “key among the findings based on their successful efforts to reduce their disability reciprocity rates is that a substantial share of people who were moving onto the long-term cash transfer disability programs were, with reasonable levels of support, able to find or maintain employment.”³⁸ This is not an indictment of any one disability insurance program, but rather recognition of the continuing progress in helping those with disabilities succeed in the workforce. From a fiscal policy standpoint, getting able-bodied people back into the workforce increases DI and OASI trust fund contributions and reduces likely dependency on public programs. The policy leaves households with better income and better retirement income prospects.

³⁸ Richard Burkhauser, et al, “Disability Benefit Growth and Disability Reform in the U.S.: Lessons from Other OECD Nations,” Federal Reserve Bank of San Francisco Working Paper. December 2013. Page 37.

INTERMEDIATE STEPS

People on SSDI can exhibit severe disabilities combined with health conditions that can make daily living difficult, let alone maintaining attachment to the labor force. For those that have residual work capacity, the combination of limited and inadequate evidence upon which to base program design reforms has hindered both the success of past attempts and our ability to offer detailed estimates on program costs/savings or number of persons that would benefit from a national temporary or partial disability program.³⁹ Therefore, it is necessary to first conduct properly designed pilot programs to gather the proper and necessary evidence to inform further policy designs.

We recommend pilot demonstration projects to test and evaluate the merits of each of our reform proposals. Long-run resources and infrastructure needed to scale up to national implementation are dependent upon the successful trials of pilot projects. Below, we sketch out two possible pilot designs, one on the individual side and one on the employer side.

On the Individual Side

In perhaps three to five states, we would offer both new entrants and existing (already eligible) SSDI beneficiaries who attempt work the opportunity to participate in a partial disability pilot. These working beneficiaries would be informed that they could stay in the existing current SSDI program or choose to enter the pilot and be guaranteed 50 percent of their benefit each month as long as earnings do not exceed a predetermined level—perhaps \$3,500 per month, depending on local cost of living with a benefit offset schedule to protect against any cash-cliff dynamics. Benefit counseling would be available to beneficiaries considering participation and those enrolled in the pilot. Participating states would be chosen based on economic and demographic characteristics in order to design an empirically testable pilot.

Pilot participants would receive CDRs more frequently—at least every year or two, depending on their condition. At these reviews, participants could be switched back to the normal, full benefit if their condition has worsened and significant work effort is no longer possible. Additionally, if a pilot participant experienced a worsening of their condition before this regular review, they could request an expedited, early review to switch back to the standard program rules. As under the current program, if medical improvement occurred to the point where beneficiaries are able to earn above the maximum monthly allowable earnings, they would graduate from the pilot.

Participants would remain attached to the program, however, in case their condition once again worsened and they became eligible to restart program benefits. In other words, a participant in the program who medically improves and is terminated from the SSDI program would not have to go through the regular application process again to resume benefits.

A beneficiary considering this pilot would therefore be faced with a tradeoff. If volunteering for the pilot, the beneficiary would receive a smaller monthly benefit payment than in the regular program—

³⁹ As discussed in Yin (2015), “Since the inception of the DI program, the SSA has implemented a series of policy initiatives to support and increase employment among disability beneficiaries: Trial Work Period, Continuing Disability Reviews, Extended Period of Eligibility, Expanded Availability of Health Care Services, Expedited Benefits, Disability reviews Postponed, Project ABLE, Work Incentives Improvement Act of 1999, Ticket to Work and Self-Sufficiency Program. None of these policy efforts has been particularly successful in promoting work among disability beneficiaries.” Page 468.

for example 50 percent less—but that benefit amount would not be reduced so long as earnings are less than the maximum allowed (again, for example, \$3,500 per month). As an illustrative example, consider a beneficiary that would receive a \$1,000 monthly DI benefit under the existing program and ability to earn up to the SGA amount of \$1,090 for a maximum monthly income of \$2,090. Enrolling in the pilot would cause the beneficiary to forgo \$500 of monthly benefit for the ability to earn up to \$3,500 in additional income. This yields a maximum monthly income of \$4,000; in essence double the amount a beneficiary could earn under the existing program. Further, if the beneficiary who participates in the pilot program medically improves, resulting in termination of benefit payments, the pilot allows for an easier resumption of benefits if the beneficiary’s medical condition worsens than if the beneficiary had stayed out of the pilot.

On the Employer Side

Jeffrey Liebman (2015) has proposed a possible pilot to incentivize employers to take on more responsibility for employee disability insurance.⁴⁰ Under Liebman’s proposal, an employer that reduced the incidence of disability among its workforce by at least 20 percent would be provided a tax credit of an unspecified amount to offset payroll taxes.

From our perspective, a pilot program similar to Liebman’s could be constructed in a few select states that would offer firms a tax credit against the cost of premiums for private disability insurance coverage, up to a set amount. In exchange, those on private disability insurance would be precluded from enrolling in public SSDI for some period of time—one to two years. This pilot would test our reform of providing more engagement in disability insurance by employers, as discussed previously in this chapter under the section titled “***Integrated employer engagement in disability insurance and accommodation setting.***” A pilot program along these lines would also allow us to gain better empirical insights into the feasibility of such a reform design at a national level.

Regardless of the pilot or pilots initially implemented, moving to an SSDI program in which all new awards are temporary could be done as a pilot at the state level, or done at the federal level as a national policy change. Either way, we’d suggest that moving to a system of partial benefits definitely be done first as a pilot in states volunteering to participate and selected so that a diverse group of beneficiaries would be covered. A rigorous and well-designed evaluation program is also necessary to properly test and evaluate the pilot programs.

Additionally, though an official scoring of our proposal is outside the scope of this chapter and requires the assistance of the Social Security Administration’s Office of the Chief Actuary, an intermediate step would be to start working with SSA to evaluate the costs and savings of these reforms and where inflection points exist that would increase costs or lead to savings.

QUESTIONS OR CONCERNS

During the course of our research, writing, reviewer comments, and discussions with knowledgeable parties, a few questions or concerns have been raised. Where possible, we have addressed those questions in the current version of this chapter. However, some additional questions or concerns may still remain and need addressing.

⁴⁰ Jeffrey B. Liebman. “Understanding the Increase in Disability Insurance Benefit Receipts.” 2015. *Journal of Economic Perspectives*. 29(2). 123-150.

For example, some on the advisory panel recognized that one of the things our reform proposal tries to do is change the public narrative of the SSDI program. Our proposal to give everyone a temporary benefit designation would, in reality, have little impact on the majority of DI beneficiaries. For example, someone who dies within a 12 to 24-month period after initial award would notice no effective change, nor would someone whose condition isn't expected to improve and doesn't improve. Except for a mandatory and timely CDR, the program would remain permanent for many, consistent with their chronic disability. What the reform to temporary DI would do is attempt to remove the perception that SSDI is *unjustly* permanent. The advisory panel suggested we be upfront about the positive change in public perspective our reform proposal could have. While this change in perception ultimately may or may not happen, we have discussed this throughout the chapter.

Additionally, the question of who receives partial benefits and how much would that benefit be is one that would have to be answered fairly and consistently. Given SSA's current administrative challenges, some have expressed concern about SSA's ability to administer such a program. Our "keep it simple" 50 percent partial benefit proposal was motivated by this comment. We note as well that the program can (and should) be modified based on pilot program findings.

Further related to partial benefit awards, we were asked which medical conditions would trigger partial benefits. Would certain conditions be fast-tracked (muscular skeletal and mental) and would some conditions be excluded automatically? As mentioned in the chapter, the pilot program would start with volunteers, but could eventually be expanded to a mandatory program where all would be initially considered for partial benefits with some conditions automatically receiving full benefits, such as those based on the Compassionate Allowances program or on the vocational grid and residual functional capacity. Also, beneficiaries could go from partial to full, from full to partial, etc. We envision the scope of benefit coverage being fluid in nature. In fact, one of the goals of reform is to move away from the static all-or-nothing DI program as it currently exists.

With respect to the appeal process, as depicted in Figure 7, our reform would still allow appeals. A question has been raised whether someone's initial award could be reduced by a judge on appeal. This is a question that still requires consideration, but the answer is likely yes. We don't want to remove the right to due process. At the same time, however, the goal isn't to provide a perverse incentive to file appeals. This would be the case if there was only upside risk for any award decision. Thus our intuition is that, just as a judge should be able to look at the evidence and increase an award from partial to full, a judge should also be empowered to reduce the level of award.

It is important to again recognize that a temporary designation is not designed to throw people off the DI rolls. The goal of reform is to change the narrative and perception of DI and protect the dignity and opportunity for work. The reform design realizes that some beneficiaries might be able to work more at particular times and then less at other times. We envision a design for DI that is more fluid.

Another concern raised deals with a beneficiary who can work and get partial benefits awarded on day one, but six months out their condition worsens and they're not up for a CDR for another 6-18 months. We have been asked "What recourse do they have to appeal for full benefits before their scheduled medical review?" From our standpoint, there should be some avenue—perhaps through a caseworker—that the beneficiary could pursue.

With respect to moving to a system with greater involvement by private employers and the private market for disability insurance, it is important to note that this part of the reform design is mutually

exclusive and separate from other components of our reform proposal. It can be adopted without changing the current SSDI program to temporary or partial awards, or it can be integrated. Our hope is that the reforms would be integrated so as to improve efficiency. An additional question raised was what happens to people who do not have an employer at the time of disability onset in a system where employers are responsible for the first two years of disability insurance. For a pilot program, this wouldn't be an issue, but for a national program it is a valid concern and one that requires further discussion. An easy answer would be to allow non-employed people to apply directly to the public SSDI program, bypassing the two years of private disability insurance. But this could create a perverse incentive, which in turn might motivate employers to dismiss employees over concern they might soon file for private disability.

Further, our intention is not to expand the definition of disability, but to use a broader definition to allow for earlier intervention by private employers so that longer-term attachment to the labor force is preserved, encouraged and, incentivized. It would be unfortunate if moving to a system where the first two years of disability were covered by private disability insurance only delayed transition to the public SSDI program instead of helping meaningful numbers of those who would benefit from longer attachment to the labor force. The goal of any pilot program is to provide empirical data to help answer these concerns.

Lastly, one of our goals is to improve the disability insurance process by making it less complex. Some of the reform proposal may add complexity to an already complex issue. The Social Security Administration has limited capacity to handle additional workload. We are mindful of this issue and wish to make the process more simple and efficient, while also removing the barriers to work that exist in the current program design. Existing offices in the Social Security Administration may require additional resources to manage new pilot programs, and the continuing R&D function we propose. At all points in the reform process, we assume and encourage full administrative funding.

CONCLUSION

Broadly speaking, the Social Security Disability Insurance program and the retirement program require reform. The DI program is currently fiscally unsustainable in both the short and long run and fails to provide a structure for individuals with disabilities who could return to work (part or full time) and find gainful and dignified employment.

The reforms discussed in this chapter propose changing the DI program to a system where all new awards are temporary, some are partial, and there is a larger role for private employers. Though we only focus on the DI program, we believe that the best opportunities for reforming the social insurance system will be holistic in nature, including the retirement program, and will honor an overarching goal of improving both personal and public finances. We further believe that such designs are feasible. What these proposed reforms require is an incremental design approach with pilot programs, long-term phase-ins and consideration of the roles of each social insurance component, along with a reconsideration of the roles and responsibilities that private insurance, employers, and individuals have in society.

REFERENCES

- Autor, David H., and Mark G. Duggan. 2010. *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System*. Washington, DC: Center for American Progress and the Hamilton Project.
- Benítez-Silva, Hugo, Richard Disney, and Sergi Jiménez-Martín. 2010. “Disability, Capacity for Work and the Business Cycle: An International Perspective.” *Economic Policy* 25 (63): 483–536.
- Blahous, Charles P. 2014. “Medicaid under the Affordable Care Act.” In *The Economics of Medicaid*, edited by Jason J. Fichtner, 83–98. Arlington, VA: Mercatus Center at George Mason University.
- Boersch-Supan, A. H. & Juerges, H. (2011). “Disability, Pension Reform and Early Retirement in Germany” NBER Working Paper, 17079.
- Bureau of Labor Statistics. 2010. *Issues in Labor Statistics*, Summary 10-04. Available at www.bls.gov/opub/ils//summary_10_04/older_workers.htm.
- . 2011. *Labor Force Statistics from the Current Population Survey*. Available at <http://www.bls.gov/cps/cpsaat1.pdf>.
- Burkhauser, Richard V., and Mary Daly. 2011. *The Declining Work and Welfare of People with Disabilities*. Washington, DC: American Enterprise Institute Press.
- . 2012. “Social Security Disability Insurance: Time for Fundamental Change.” *Journal of Public Policy Analysis and Management* 31 (2): 454–61.
- Burkhauser, Richard V., Mary C. Daly, Duncan McVicar, and Roger Wilkins. 2013. “Disability Benefit Growth and Disability Reform in the U.S.: Lessons from Other OECD Nations.” Working Paper 2013-40, Federal Reserve Bank of San Francisco, San Francisco, CA. Available at <http://www.frbsf.org/economic-research/files/wp2013-40.pdf>.
- Chan, Sewin, and Anne H. Stevens. 2001. “Job Loss and Employment Patterns of Older Workers.” *Journal of Labor Economics* 19 (2): 484–521.
- Congressional Research Service (CRS). 2007. *CRS Report for Congress, Unemployment and Older Workers*. Washington, DC.
- Daly, Mary C., Brian T. Lucking, and Jonathon Schwabish. 2013. “Explaining the Rapid Growth in the Social Security Disability Rolls.” *Disability Policy Watch*, March 22, 2013. Available at <http://www.frbsf.org/economic-research/files/explaining-disability-growth.pdf>.
- DeCesaro, Anne, and Jeffrey Hemmeter. 2008. “Characteristics of Noninstitutionalized DI and SSI Program Participants.” U.S. Social Security Administration, Washington, DC. Available at <http://www.ssa.gov/policy/docs/rsnotes/rsn2008-02.html>.

- Domenici, P., A. Rivlin, and Debt Reduction Task Force. 2010. *Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-growth Tax System*. Washington, DC: Bipartisan Policy Center.
- Employee Benefit Research Institute and Mathew Greenwald and Associates Inc. 2007. *Retirement Confidence Survey*. Available at <http://www.ebri.org/surveys/rcs/2007>.
- . 2011. *Retirement Confidence Survey*. Available at <http://www.ebri.org/surveys/rcs/2011>.
- Fichtner, Jason J. 2014. "Medicaid's Budgetary Impact: The Federal Side of the Budget Equation." In *The Economics of Medicaid: Assessing the Costs and Consequences*, edited by Jason J. Fichtner, 49–82. Arlington, VA: Mercatus Center at George Mason University.
- Fichtner, Jason J., and Jason S. Seligman. 2015. "Saving Social Security Disability Insurance: Reforms Within the Context of Holistic Social Security Reform." Mercatus Working Paper. Arlington, VA: Mercatus Center at George Mason University.
- . 2014. "Public Disability Insurance Programs in the Context of Pension Reforms." In *Pensions: Policies, New Reforms and Current Challenges*, edited by Thom Reilly, 167–86. New York: NOVA Press.
- Glick, Reuven, and Kevin J. Lansing. 2011. "Consumers and the Economy, Part I: Household Credit and Personal Saving." FRBSF Economic Letter No. 2011-01, Federal Reserve Board of San Francisco, San Francisco, CA.
- Greenspan Commission. 1983. "Report of the Bi-partisan National Commission on Social Security Reform." Historical report of the U.S. Social Security Administration, Washington, DC. <http://www.ssa.gov/history/reports/gspan.html>.
- Hackmann, Martin B., Jonathan T. Kolstad, and Amanda E. Kowalski. 2015. "Adverse Selection and an Individual Mandate: When Theory Meets Practice" *The American Economic Review* 105(3): 1030-1066.
- Health and Retirement Study. 1992–2010 wave data files. Public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.
- Hurd, Michael D., and Susann Rohwedder. 2010. "The Effects of the Economic Crisis on the Older Population." MRRC Working Paper No. 2010-231, Retirement Research Center, University of Michigan, Ann Arbor, MI.
- Joffe-Walt, Chana. 2013. "Unfit for Work: The Startling Rise of Disability in America." *Planet Money Blog*. National Public Radio, March 22, 2013. Available at <http://apps.npr.org/unfit-for-work>.
- Koning, Pierre, and Maarten Lindeboom. 2015. "The Rise and Fall of Disability Insurance Enrollment in the Netherlands." *Journal of Economic Perspectives* 29(2): 151-172.
- Liebman, Jeffrey B. 2015. "Understanding the Increase in Disability Insurance Benefit Receipt in the United States." *Journal of Economic Perspectives* 29(2): 123-150.

- Liebman, Jeffrey B., and Jack A. Smalligan. 2013. "An Evidence-Based Path to Disability Insurance Reform." Hamilton Project policy proposal, Brookings Institute, Washington, DC.
- Lindner, Stephan, and Clark Burdick. 2013. "Characteristics and Employment of Applicants for Social Security Disability Insurance over the Business Cycle." CRR Working Paper 2013-11, Center for Retirement Research, Boston College, Chestnut Hills, MA.
- Mann, David, and David Stapleton. 2012. "A Roadmap to a 21st-Century Disability Policy." Issue Brief 12-01, Center for Studying Disability Policy, Mathematica Policy Research, Princeton, NJ.
- Moynihan, Daniel P., Richard Parsons, and the President's Commission to Strengthen Social Security. 2001. *Strengthening Social Security and Creating Personal Wealth for All Americans: Report of the President's Commission*. Washington, DC: U.S. Government Printing Office.
- Mueller, Andreas I., Jesse Rothstein, and Till M. von Wachter. 2013. "Unemployment Insurance and Disability Insurance in the Great Recession." NBER Working Paper 19672. Cambridge, MA.
- RAND HRS Data, Version L. 2011. Produced by the RAND Center for the Study of Aging, with funding from the National Institute on Aging and the Social Security Administration. Santa Monica, CA.
- Reno, V, and Ekman L. 2012. "Social Security Disability Insurance: Essential Protection When Work Incapacity Strikes." *Journal of Public Policy Analysis and Management* 31 (2): 461–69.
- Rix, Sara E. 2002. "Update on the Older Worker: 2002." Data Digest 88, AARP Public Policy Institute, Washington, DC.
- Rupp, Kalman, and David Stapleton. 1995. "Determinants of the Growth in Social Security Administration's Disability Programs—an Overview." *Social Security Bulletin* 58 (4): 43–70.
- Seligman, Jason S. 2014. "Involuntary Retirement, U.S. Social Security Program Participation and the Great Recession." *Public Finance and Management* 14 (3): 329–56.
- Seligman, Jason S., and Jeffrey B. Wenger. 2006. "Asynchronous Risk: Unemployment, Equity Markets, and Retirement Savings." *Journal of Pension Economics and Finance* 5 (3): 237–55.
- Shapiro, Matthew D. 2010. "The Effects of the Financial Crisis on the Well-Being of Older Americans: Evidence from the Cognitive Economics Study." MRRC Working Paper No. 228, Retirement Research Center, University of Michigan, Ann Arbor, MI.
- Social Security Administration (SSA). 2003. "Fast Facts and Figures about Social Security, 2002." SSA Publication No. 13-11785, August 2003. U.S. Social Security Administration, Washington, DC.
- . 2012. "Fast Facts and Figures about Social Security, 2012." SSA Publication No. 13-11785. August 2012. U.S. Social Security Administration, Washington, DC.
- . 2013. "Fast Facts and Figures about Social Security, 2013." SSA Publication No. 13-11785. August 2013. U.S. Social Security Administration, Washington, DC.

- . 2014. “Understanding the Benefits.” SSA Publication No. 05-10024, U.S. Social Security Administration, Washington, DC.
- Solis, Hilda L., and Keith Hall. 2010. “National Compensation Survey: Employee Benefits in the United States, March 2010.” Bulletin 2731, Bureau of Labor Statistics, U.S. Department of Labor, Washington, DC.
- Warshawsky, Mark J. and Ross A. Marchand. 2015. “Modernizing the SSDI Eligibility Criteria: A Reform Proposal That Eliminates the Outdated Medical-Vocational Grid.” Mercatus Working Paper. Arlington, VA: Mercatus Center at George Mason University.
- Yin, Na. “Partial Benefits in the Social Security Disability Insurance Program.” *The Journal of Risk and Insurance*. 82(2). 463-504.